

CITY OF FREDONIA, IOWA
INDEPENDENT ACCOUNTANT'S REPORT
ON APPLYING AGREED-UPON PROCEDURES
FOR THE PERIOD
JULY 1, 2015 THROUGH JUNE 30, 2016

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Officials

Name	Title	Term Expires
Officials		
Rob Bright	Mayor	December, 2017
Noel Bright	City Council	December, 2017
Julie Frank	City Council	December, 2017
Bob Reid	City Council	December, 2017
Bryant Milder	City Council	December, 2019
Danny Bausch	City Council	December, 2019
Lisa Exline	City Clerk/Treasurer	Indefinite
Ivan Arthur	City Accountant	Indefinite

Independent Accountant's Report on Applying Agreed-Upon Procedures

To the Honorable Mayor and
Members of the City Council
City of Fredonia, Iowa

We have performed the procedures enumerated below which were established pursuant to Chapter 11.6 of the Code of Iowa enacted by the Iowa Legislature to provide oversight of certain Iowa cities. Accordingly, we have applied certain tests and procedures to selected accounting records and related information of the City of Fredonia for the period July 1, 2015 through June 30, 2016. The City of Fredonia's management, which agreed to the performance of the procedures performed, is responsible for the City's records.

This agreed-upon procedures engagement was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and the standards for attestation engagements contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. The sufficiency of these procedures is solely the responsibility of those parties specified in the report. Consequently, we make no representation regarding the sufficiency of the procedures described below either for the purpose for which this report has been requested or for any other purpose.

The procedures we performed are summarized as follows:

1. We reviewed selected City Council meeting minutes for compliance with Chapters 21, 372.13(6) and 380 of the Code of Iowa.
2. We reviewed the City's internal controls to determine if proper control procedures are in place and incompatible duties, from a control standpoint, are not performed by the same employee.
3. We reviewed surety bond coverage for compliance with Chapter 64 of the Code of Iowa.
4. We obtained and reviewed the City Clerk's financial reports and selected bank reconciliations to determine whether the bank balances properly reconciled to the general ledger account balances and monthly financial reports provided to the City Council.
5. We reviewed City funds for consistency with the City Finance Committee's (CFC) recommended Uniform Chart of Accounts (COA) and to determine required funds and fund balances are properly maintained and accurately accounted for.
6. We reviewed the City's fiscal year 2016 Annual Financial Report to determine whether it was completed and accurately reflects the City's financial information.
7. We reviewed investments to determine compliance with Chapter 12B of the Code of Iowa.

8. We reviewed compliance with Chapters 12C.2, 12B.10B and 556.1(12) of the Code of Iowa pertaining to required depository resolutions, investment policy and reporting of unclaimed property to the State of Iowa.
9. We reviewed debt, including general obligation and revenue bonds/notes, and related transactions for proper authorization and compliance with Chapters 75, 384 and 403.9 of the Code of Iowa and to determine whether the debt and related proceeds and repayments were properly accounted for.
10. We reviewed and tested selected receipts for accurate accounting and consistency with the CFC recommended COA.
11. We reviewed and tested selected disbursements for proper approval, adequate supporting documentation, accurate accounting and consistency with the CFC recommended COA and compliance with the public purpose criteria established by Article III, Section 31 of the Constitution of the State of Iowa.
12. We reviewed and tested selected payroll and related transactions for propriety, proper authorization and accurate accounting.
13. We reviewed the annual certified budget for proper authorization, certification and timely amendment.

Based on the performance of the procedures described above, we identified various recommendations for the City. Our recommendations are described in the Detailed Recommendations section of this report. Unless reported in the Detailed Recommendations, items of noncompliance were not noted during the performance of the specific procedures listed above.

We were not engaged to and did not conduct an audit of the City of Fredonia, the objective of which is the expression of opinions on the City's financial statements. Accordingly, we do not express opinions on the City's financial statements. Had we performed additional procedures, or had we performed an audit of the City of Fredonia, additional matters might have come to our attention that would have been reported to you.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Fredonia and other parties to whom the City of Fredonia may report. This report is not intended to be and should not be used by anyone other than these specified parties.

HOGAN - HANSEN

HOGAN - HANSEN

Waterloo, Iowa
August 23, 2016

Detailed Recommendations

Detailed Recommendations

For the Period July 1, 2015 through June 30, 2016

- (A) **Segregation of Duties** - One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. Generally, one individual has control over each of the following areas for the City:

- (1) Accounting system - performing all general accounting functions, including journal entries.
- (2) Cash - reconciling and recording.
- (3) Investing - recordkeeping and reconciling earnings.
- (4) Receipts - opening mail, collecting and depositing.
- (5) Utilities - billing, collecting, depositing, entering rates into the system and maintaining detailed accounts receivable and write-off records.
- (6) Debt - compliance and debt payment processing.
- (7) Journal entries - preparing and journalizing.
- (8) Disbursements - purchasing, invoice processing, check writing and mailing.
- (9) Payroll - entering rates into the system, preparing, signing and distributing.
- (10) Computer system - performing all general accounting functions and controlling all data input and output.
- (11) Financial reporting - preparing and reconciling.

Recommendation - We realize segregation of duties is difficult with a limited number of employees. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances utilizing currently available staff, including elected officials. Independent reviews of reconciliations and journal entries should be evidenced by the signature or initials of the reviewer and the date of the review.

- (B) **Bank Reconciliations** - The cash and investment balances in the City's general ledger were not reconciled to bank and investment account balances throughout the year.

Recommendation - To improve financial accountability and control, monthly bank reconciliations, including investments, should be performed and retained, and variances between book and bank balances should be investigated and resolved timely. In addition, the reconciliation should be reviewed by an independent person and the review should be documented by the initials or signature of the reviewer and the date of the review. Interest earned on all accounts, including certificates of deposit, should be recorded when earned.

- (C) **Official Depositories** - A resolution naming official depositories has not been adopted by the City Council as required by Chapter 12C.2 of the Code of Iowa.

Recommendation - A resolution in amounts sufficient to cover anticipated balances at all approved depositories should be adopted by the City Council.

Detailed Recommendations

For the Period July 1, 2015 through June 30, 2016

- (D) **Investments** - The City has not adopted a written investment policy as required by Chapter 12B.10B of the Code of Iowa.

Recommendation - The City should adopt a written investment policy that complies with the provisions of Chapter 12B.10B of the Code of Iowa.

- (E) **Accounting Policies and Procedures Manual** - The City does not have a written accounting policies and procedures manual.

Recommendation - An accounting policies and procedures manual should be developed to provide the following benefits:

- (1) Aid in training additional or replacement staff.
- (2) Help achieve uniformity in accounting and in the application of policies and procedures.
- (3) Save supervisory time by recording decisions so they will not have to be made each time the same, or a similar, situation arises.

- (F) **City Council Minutes** - We reviewed the minutes for four meetings and identified the following:

- (1) Chapter 372.13(6) of the Code of Iowa requires minutes of all City Council proceedings be published within 15 days of the meeting and include a list of total disbursements by fund, a summary of receipts and a listing of each claim being paid, along with a reason for each claim. For each of the four meetings tested, the minutes were not published within 15 days, the minutes did not include total disbursements by fund, a summary of receipts or a complete listing of reasons for each individual claim.
- (2) Chapter 380.7 of the Code of Iowa requires minutes to be printed and signed. For each of the four meetings tested, the minutes were not properly signed by the City Clerk.
- (3) Chapter 380.4 of the Code of Iowa requires the passage of ordinances, amendments or resolutions be passed by a majority vote of all the members of the City Council rather than a majority vote of a quorum of the City Council. In the minutes of the meeting on March 14, 2016, a resolution was passed by less than a majority vote of all members of the City Council.

Recommendation - The City should comply with the Code of Iowa and publish City Council minutes within 15 days and include a list of total disbursements by fund, a summary of receipts and a complete listing of reasons for individual claims paid. In addition, all minutes should be signed to authenticate, as required. Also, all ordinances, amendments or resolutions should be passed by a majority vote of all the members of the City Council.

- (G) **Chart of Accounts** - The City has not fully implemented the City Finance Committee's (CFC) recommended Uniform Chart of Accounts (COA) for Iowa City Governments approved by the CFC on September 25, 2002. In addition, debt principal and interest were improperly recorded in one account as a total amount.

Detailed Recommendations

For the Period July 1, 2015 through June 30, 2016

Recommendation - To provide better financial information and control, the recommended COA, or its equivalent, should be followed for all transactions, including debt service payments. In addition, the City should record debt principal and interest to separate accounts within the accounting software.

- (H) **Section 148** - The City does not have written procedures to monitor compliance with the arbitrage, yield restrictions and rebate requirements under Section 148 of the Internal Revenue Code as it relates to debt obligations.

Recommendation - The City should establish written procedures to monitor compliance with the arbitrage, yield restrictions and rebate requirements under Section 148 of the Internal Revenue Code.

- (I) **Management Financial Information** - The City Clerk's financial reports to the City Council did not include comparisons to the certified budget by function. In addition, the City Clerk's financial reports to the City Council did not include a City Clerk's report.

Recommendation - To provide better control over budgeted disbursements and the opportunity for timely amendments to the certified budget, the City Clerk's monthly financial reports to the City Council should include comparisons to the certified budget by function. Also, for better financial information, the monthly City Clerk's report should include the beginning balance, receipts, disbursements, transfers and ending balance for each fund.

- (J) **Prenumbered Receipts** - Prenumbered receipts were not issued for all cash collections and an initial listing of collections was not prepared.

Recommendation - Prenumbered receipts should be issued for all cash collections and an initial listing of collections should be prepared. These collections should be compared to the bank deposit and the accounting records by an independent person and the evidence of review should be documented.

- (K) **Electronic Check Retention** - Chapter 554D.114 of the Code of Iowa allows the City to retain canceled checks in an electronic format and requires retention in this manner to include an image of both the front and back of each canceled check. The City does not receive an image of the back of each canceled check.

Recommendation - The City should obtain and retain images of both the front and back of canceled checks, for all accounts, as required by Chapter 554D.114 of the Code of Iowa.

- (L) **Disbursements** - The following were identified:

- (1) Invoices or other supporting documentation were not always available to support disbursements. Supporting documentation for 28 of 30 disbursements tested, totaling \$10,392.36, could not be located.
- (2) The City did not record 1 of 30 disbursements to the City's general ledger, and therefore, this disbursement was also not properly classified by function. This was a result of improper accounting procedures. The City records checks to the general ledger only once checks clear the bank, rather than when the check is issued.

Detailed Recommendations

For the Period July 1, 2015 through June 30, 2016

(3) There was no indication in the City Council minutes that the Council approved 1 of 30 disbursements tested, totaling \$1,339.67.

(4) While the City Council notes approval of claims in the minutes, and a list of claims is prepared, evidence of approval is not indicated on the invoices.

Recommendation - All disbursements should be supported by invoices or other supporting documentation. Also, all disbursements should be recorded to the City's general ledger once the check is written. In addition, each invoice should be approved by the City Council and authorization of the individual disbursements should be documented in the City Council minutes. Lastly, the City should establish procedures to document approval for payment on each invoice.

(M) **Payroll** - There was no supporting documentation indicating that salaries were authorized for any of the payroll transactions selected.

Recommendation - Approved salaries and/or hourly pay rates of employees should be documented annually in the City Council minutes and in each employee's personnel file.

(N) **Local Option Sales Tax (LOST)** - The City did not have a copy of the most recent LOST ballot or revenue purpose statement. In addition, the City has not been tracking the use of LOST receipts.

Recommendation - The City should retain a copy of the LOST ballot and revenue purpose statement. In addition, the City should establish a special revenue fund to account for LOST receipts, disbursements and transfers to ensure that LOST receipts are being used in accordance with the ballot.

(O) **Certified Budget** - Disbursements during the year ended June 30, 2016 exceeded the amounts budgeted in the public works function. Chapter 384.20 of the Code of Iowa states, in part, "Public monies may not be expended or encumbered except under an annual or continuing appropriation."

Recommendation - The budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

(P) **Debt** - The City does not have a copy of the agreement for its existing debt. Therefore, we were unable to determine if the debt was general obligation debt or some other type of debt. The City is treating the debt as a sewer obligation.

Recommendation - The City should retain a copy of all debt agreements.

(Q) **Revenue** - The City improperly classified \$2,263.24 of sewer and garbage revenue as property tax revenue.

Recommendation - The City should establish procedures to ensure revenue is properly classified and recorded within the accounting system.

Detailed Recommendations

For the Period July 1, 2015 through June 30, 2016

- (R) **Reconciliation of Utility Billings, Collections and Delinquent Accounts** - Utility billings, collections and delinquent accounts were not reconciled throughout the year and a delinquent account listing is not prepared each month. In addition, the City informs citizens of the monthly utility rates; however, the City does not send out bills to the citizens.

During our testing, we noted that there were 27 delinquent utility accounts out of an estimated total of 116 customers. These accounts were anywhere from 2 to 20 months in arrears. In addition, there were two City Council members on the list of delinquent accounts.

Recommendation - Procedures should be established to reconcile utility billings, collections and a listing of delinquent accounts for each billing period. Any variances should be investigated and resolved in a timely manner. The City Council or other independent person designated by the City Council should review the reconciliations, document the review by signing or initialing and dating the reconciliation and monitor delinquent accounts.

We further recommend that the City begin mailing a utility bill to customers each month and actively pursue options to collect delinquent amounts.